Friedman and Keynes: Both Saviours of Capitalism?

20th century economic thought has an a-typically nuanced dichotomy. Where the proponents of the marginal revolution in the 19th century fundamentally rejected the classicists' objective view of value, and where the Marxist school offered an entirely different economic system to capitalism, there is a broad historical precedent of radical challenges to orthodox approaches. Keynesianism, however, was (and perhaps is now again) the pre-eminent heterodox approach (Carvalho, 2008), but essentially advocates a tailored version of the widely accepted capitalist doctrine, rather than a fundamental or radical shift. Milton Friedman, subsequently, headed a more conservative body of thought, and the Chicago School's libertarian view of market represents the antithesis of Keynes' work in a capitalist framework. This essay seeks to evaluate the contribution of both Keynes and Friedman to the 20th century phenomena of embedding capitalism as the dominant economic system, ultimately concluding that whilst their theories clash on the principle of a *laissez-faire* government approach, concurrent in their work is a belief in the central mechanisms of capitalism. Furthermore, it will be demonstrated that whilst Keynesian economic solutions were embraced for a period (notably in both the UK and USA), and thus saved capitalism to a degree, its perceived failure has hindered its contemporary influence. Friedman's work and the monetarist counter-revolution, consequently, 'saved' capitalism from this failure of Keynesianism.

Within contemporary discourse, capitalism is a word that has been both stigmatised by the political left and propagated by the right, so it is important to offer an ideologically neutral definition from which analysis can be conducted. Purely as a method of resource allocation, capitalism has three distinct pillars; (1) a market for finance, labour and goods and services, (2) property rights and private ownership of the means of production, and (3) employment relationships where wage labour creates a class structure. This brief explanation will allow us to see how the work of both Keynes and Friedman entrenched these three tenets, and how it was overarching macroeconomic issues concerning monetary policy, inflation and unemployment where they each prompted a reconsideration of how capitalism ought to be directed by government. Given that the adoption neoliberal economics associated with Friedman was a reaction to the demise of Keynesianism in the late 1970s, a chronological analysis, starting with the Great Depression, offers the best way to understand Friedman and Keynes as 'saviours' of capitalism.

As the longest, deepest and most widespread economic crisis of the 20th century, the Great Depression presented both the opportunity to accept the Marxist vision of capitalism as inherently unstable, but also a platform from which to posit modifications to the existing norms about regulating capitalism on a macroeconomic level. Keynes' evaluation of the depression, typified by the 1929 'Wall Street Crash', mass unemployment and a global trade collapse (Frank and Bernanke, 2007, 98), suggested that a lack of government investment (which, if sufficient, would offset falling private sector investment) in the initial phases of recession intensified the crisis. The government, Keynes set out in his *General Theory*, ought to eliminate 'the objectionable features of capitalism' and find the remedy for the instability of the trade cycle 'in abolishing slumps and thus keeping us permanently in a quasi-boom' (2006, Book VI, Chapter 22). This demonstrates not just Keynes' appetite for a successful capitalist system, but also, like Marx, his focus on the instability of capitalism. His solutions, however, were clearly more palatable by the contemporary hegemonic capitalist system in the developed world, and signaled an era of active promotion of output and employment stability by governments in both the UK and USA.

What is particularly evident from the *General Theory* is Keynes' relative apathy towards moral implications, and the stressing of efficiency when referring to the ways capitalism ought to be adjusted. His support of income and wealth redistribution, for example, cites the relatively higher marginal propensity to consume of poorer people as justification (Book III, Chapter 8). Furthermore, Keynes expresses Investment to be inherently volatile, and, in essentially rejecting Say's law, argues that the liquidity preference of certain people means that they would rather hold money than purchase goods and services. This necessitates what he termed a 'comprehensive socialization of investment' (2006, Book VI, Chapter 24), the intuition that governments should intervene to preserve full employment and aggregate demand.

Indeed, so compelling were Keynes' ideas about the efficiency of his regulated capitalism that, in the early post-war period, it became the mainstream. The apotheosis of Keynesian thought was the Beveridge report, and its implementation by Clement Attlee's Labour government signalled a new age of economic consensus built around the government mandate to ensure full employment by, in the words of subsequent Labour Prime Minister Jim Callaghan, 'spending (its) way out of recession' (British Political Speech Archives: Blackpool 1976). Additionally, counter-cyclical fiscal policies were embraced by Franklin D. Roosevelt's administration (Berkin et al., 2011, 629), and Keynes thus provided conceptual reinforcement to the 'New Deal'. Evidently, then, Keynes saved capitalism In so far as he provided answers to the questions being asked about its continuing viability after the Great Depression. However, it is in Fletcher's analysis of this Golden Age of Capitalism where we can draw even greater testament to Keynes as a 'saviour'. Fletcher holds that the UK and USA (as well as many other Western countries embracing similar socially democratic economies) enjoyed low, stable unemployment and modest inflation (1989, 190), and that this remarkable period of unusually rapid growth and economic recovery eased discussion of capitalism's demise. His focus on rectifying the instability of capitalism in a less radical way than Marx, then, renders Keynes the saviour of capitalism in the fall out of the Great Depression.

As Carvalho notes, Keynes 'was a reformer, not a revolutionary' (2008, 202), and believed his reforms could remove the shortcomings of the capitalist system whilst retaining aspects that he approved of, such as the freedom of individuals as economic agents (Keynes, 2006). Whilst adoption of the Beveridge plan was critical in this context, his deferred pay plan that was set out in *How to Pay for the War* also sought to fight unemployment and regularise a volatile business cycle, the Keynesian evils of capitalism (Keynes, 1940). We can say with some force, then, that Keynes both wanted to save capitalism and, initially at least, his ambitions enjoyed some success. The 'stagflation' of the late 1970s however, witnessed in both Callaghan's UK and Jimmy Carter's US economies, re-raised questions about the governments capacity to harness the boom and bust nature of capitalist economies. Cynicism replaced optimism, with contextual problems including the fallout of the Vietnam War, the 1973 Oil Crisis and industrial unrest deepening the economic problems, and Skidelsky's analysis alludes to how the crisis, born out of a range of economic factors, was disproportionately blamed on Keynesian economics. 'The history of Keynesian governments', Skidelsky writes, 'come to us wrapped up in a history of rising inflation and unsound public finance…wrongly portrayed as inseparable from the Keynesian cure for the afflictions of industrial society' (1996, 107). Whilst he is an admittedly dissident voice in the evaluation of Keynes, hindsight now affords us the ability to appreciate how Keynes 'saved' capitalism in another crucial way: by 'taking the hit' for it's failings. Stagflation provided the ultimate ammunition for the growing body of neoliberal economists, most prominent of which was Milton Friedman, and a widespread acceptance that the 1970s economic problems were born out of the Keynesian agenda heralded a new age of economic thinking, and a second 'saviour' of capitalism. Margaret Thatcher's chancellor Nigel Lawson affirmed this new age, declaring that the 'conquest of inflation should be the objective of macroeconomic policy' (1996, 106).

FRIEDMAN POLICY

Central to an appreciation of how Milton Friedman can be seen as a 'saviour' of capitalism is an understanding of how much of his theory represents an almost direct antithesis of Keynes' work.

Inflation is always and everywhere a monetary phenomenon. – refutes Skidelsky's analysis about cause of inflation.

Far from the depression being a failure of the free-enterprise system, it was a tragic failure of government - Blame appropriated towards Keynesian economic solutions.

Keynesian demand management was ultimately only inflationary
government intervention often has an effect opposite of that intended
"There is likely to be a lag between the need for action and government recognition of the need; a further lag between recognition of the need for action and the taking of action; and a still further lag between the action and its effects

emphasizes non-intervention from government and generally rejects regulation in markets as inefficient with the exception of central bank regulation of the money supply

Friedman demonstrated that the rise in government expenditures results in a roughly equal rise in GDP, contrasting with the Keynesian multiplier theory (Capitalism and Freedom, Chapter V).

However, the government should not make fair employment practices laws (eventually embodied in the Civil Rights Act of 1964), as these inhibit the freedom to employ someone based on whatever qualifications the employer wishes to use. For the same reason, right-to-work laws should be abolished – OPPOSITE TO KEYNES GOV. OUGHT TO GUARENTEE FULL EMPLOYMENT.

primacy of the money supply over investment and government spending in determining consumption and output

A striking conclusion of their research was regarding the way in which money supply fluctuations are contributing to economic fluctuations.

THATHCER/REAGEN

supply-side, laissez faire, Monetarism as a new doctrine to save capitalism.

Milton Friedman took many of the basic principles set forth by Adam Smith and the classical economists. He says of the social responsibility of business : “to use its resources and engage in activities designed to increase its profits…(through) open and free competition’. This is similar to Smith’s argument that self-interest in turn benefits the whole of society. Work like this helped lay the foundations for the coming marketization privatization of state enterprises and the supply-side economics of Ronald Reagan and Margaret Thatcher

As an ideological force, it had gathered strength and influenced prominent young Conservatives such as Keith Joseph, one of Thatcher’s key advisors.

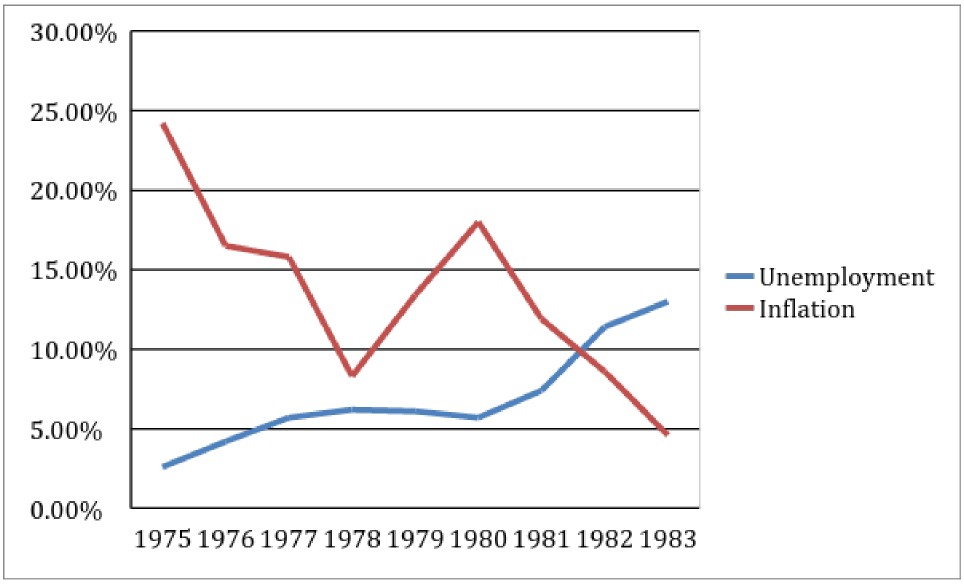

Figure 1.1: UK Economic Statistics, 1975-1983. *Source: Office for National Statistics.*

CONCLUSION

Keynes might turn in his grave at the capitalist system that is embedded today, but he saved it in three distinct and important ways: offering a palatable solution to the Great Depression, facilitating rapid economic growth, and taking the disproportionately fall when capitalism failed again in the 1970s.

Friedman would doubtless be more satisfied that his legacy continues to shape macroeconomic policy in developed capitalist economies.

Both 'saved' capitalism by offering solutions to its evident failings and by bringing consensus that it was still the most favourable economic system.

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